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WBTC Changes and Risk Mitigation - 10 August 2024

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Background

Yesterday on 9 August, Bitgo announced 170 it is planning to transfer control of the WBTC product to a joint venture with BiT Global. This will result in custody being split across multiple jurisdictions including Hong Kong and Singapore, compared with current US based custody. Bitgo has disclosed that this change implements a partnership with Justin Sun and the Tron ecosystem; as such we can infer that Justin Sun will have significant influence or control over the joint venture managing WBTC. This change in control is expected to take place in 60 days.

This bears some similarity to the previous situation concerning control of the TUSD stablecoin, which was discussed in the Maker forum here. Since TUSD was placed into Justin Sun's control, it has seen market deterioration in operational processes and transparency, including the resignation of the previous management team, suspension of real time proof of reserves, and several significant depegs caused by interruptions in redemption service. We have also seen other Sun affiliated projects show worrying signs of possible misappropriation, such as the substitution of Huobi's USDT reserves with stUSDT, a Sun controlled RWA project that purports to hold a reserve of US treasury bills but has not provided clear audits or evidence that the backing exists. On the whole, we find that Sun's involvement as a controlling interest in the new WBTC joint venture presents an unacceptable level of risk.

We also note that Bitgo itself seems to have had some negative developments recently, including a failed acquisition by Galaxy Digital where Galaxy backed out for undisclosed reasons. This, along with the unexpected decision to divest from the WBTC product, may be indications of financial distress within Bitgo, and reflects negatively on Bitgo's counterparty risk. While some of the risk factors are somewhat speculative, it makes sense to err on the side of caution given the critical role WBTC collateral plays within defi.

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Recommended Actions

Given the upcoming change in control, BA Labs believes WBTC collateral integrations on Maker and SparkLend present an elevated level of risk. BA Labs recommends the Stability Facilitator to propose the following immediate actions to limit growth of WBTC exposure, to be included in the next upcoming executive vote on Monday 12 August:

- Core vaults:
  - WBTC-A DC-IAM `line` (max DC): Decrease for 500M from 500M to 0
  - WBTC-B DC-IAM `line` (max DC): Decrease for 250M from 250M to 0
  - WBTC-C DC-IAM `line` (max DC): Decrease for 500M from 500M to 0
- SparkLend:
  - Disable WBTC borrowing
  - Reduce WBTC LTV from 74% to 0%

If Bitgo or other responsible persons cannot convincingly demonstrate that maintaining current collateral integrations are safe, we will consider further recommendations for parameter changes to protect the protocol and mitigate counterparty risks, up to and including potential full offboarding of all Maker and Spark WBTC collateral integrations.

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